

## ***Henderson Ridge Consulting, Inc.***

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July 21, 2015

Louisiana Public Service Commission

Attention: Kathleen Richardson/Brandon Frey

Office of the General Counsel

602 North Fifth Street, 12<sup>th</sup> Floor (Galvez Building) (70802)

P.O. Box 91154

Baton Rouge, Louisiana 70821-9154

**Docket Nos. U-32996 and U-32998**

***In re: Centerpoint Arkla and Entex 2013 RSP Reviews***

Dear Kathleen and Brandon:

Henderson Ridge Consulting is pleased to respond to the Louisiana Public Service Commission's ("LPSC" or "the Commission") July 17, 2015 solicitation for bids for independent technical consultants to assist the Commission in conducting a review of the proposed new terms of the Rate Stabilization Plans ("RSP") in effect for Centerpoint Arkla and Entex. In prior engagements on behalf of the LPSC, Henderson Ridge Consulting has designed Formula Rate Plans ("FRP") for water and wastewater utilities and electric distribution cooperatives. Our firm has also conducted earnings reviews of several LPSC-jurisdictional utilities, including the most recent FRP Annual Filings of several electric distribution cooperatives. Henderson Ridge Consulting is also in the process of conducting the evaluation of Southwest Louisiana Electric Membership Corporation's ("SLEMCO") Application for an Increase in Base Rates in Docket No. U-33452

### **Scope of Representation**

As explained in the solicitation for bids letter, the consultant retained by the Commission shall assist Staff in the review of the proposed terms of the RSP for Centerpoint Arkla and Entex. The emphasis of the review is to be placed upon the Return on Equity (“ROE”) proposed by the Company and the capital structure as well as the Upper and Lower bandwidths of the plan. Other terms and conditions of the proposed new RSP should also be evaluated.

### **Summary of Work Plan**

Henderson Ridge Consulting will review the new RSP proposed by the Company. We will evaluate the reasonableness of the proposed ROE as compared to the ROEs authorized for peer companies and in light of the existing capital structure. The proposed earnings bandwidth will be tested for sensitivity to a range of earnings levels. The other terms and conditions of the RSP will also be examined, including any prescribed adjustments that should remain as part of the RSP or the introduction of new adjustments as necessary.

The major services, procedures, and tests that will be performed include:

- Examine documentation provided in support of the proposed RSP;
- Prepare formal discovery and review responses;
- Perform a review of the ROEs authorized for similarly situated local gas distribution companies;
- Perform an analysis of the actual earnings levels achieved by a peer group of local gas distribution companies;
- Evaluate the reasonableness of the Company’s actual capital structure;
- Test the proposed earnings bandwidths for a change in earnings;
- Meet and hold conference calls with Staff and Cooperative representatives;
- Examine the other terms and conditions of the proposed RSP for reasonableness;
- Prepare final report and/or prefiled testimony;
- Stand cross examination at Commission hearings;
- Attend Business and Executive Sessions (as Staff deems necessary);
- Assist Staff counsel in the drafting of motions, briefs, and orders; and
- Provide general support services to Staff throughout the engagement.

**Experience of Henderson Ridge Consulting**

Our firm has conducted numerous engagements on behalf of the Commission that have evaluated the earnings of Louisiana public utilities that are regulated under Commission-approved RSPs and FRPs. We have worked closely with the Entergy operating companies in designing the terms and conditions of the FRPs under which they are regulated. We have also designed FRPs for electric distribution cooperatives and water and wastewater utilities on behalf of the Commission.

Our firm has been retained by the Louisiana Public Service Commission over the years to assist Staff in numerous dockets covering the myriad requests, issues, and audits of utilities under its jurisdiction. These engagements have involved electric distribution cooperatives, investor-owned electric utilities, local gas distribution companies, telecommunications carriers, and water and wastewater utilities. A copy of a firm resume that provides further background on our experience and prior engagements is attached to our response to the Commission's solicitation letter.

**Estimate of Cost**

The professional fees to conduct the review of the proposed new RSP for Centerpoint Arkla and Entex are estimated at \$17,250.00 based upon an hourly rate of \$150 for William Barta. Travel-related expenses are anticipated to be \$900.00, for a total budget of \$18,150.00.

**Conflict of Interest**

Henderson Ridge Consulting has no current assignments, or any prior assignments, that could pose any conflicts of interest, or the appearance of such conflicts, including, but not limited to, any work performed on behalf of the Louisiana Public

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Service Commission. The firm does not represent any private clients before the Commission.

Henderson Ridge Consulting appreciates the opportunity to respond to the Commission's solicitation letter and to continue its relationship with the Commission and its Staff.

Sincerely,

William Barta  
Principal